

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Hometown Bank of Corbin, Inc. ----- Hometown Bancshares, Inc.

| | | | |
|--------------------------------|-------------------|--|----------|
| Point of Contact: | Tim Barnes | RSSD: (For Bank Holding Companies) | 2955300 |
| UST Sequence Number: | 656 | Docket Number: (For Thrift Holding Companies) | N/A |
| CPP/CDCI Funds Received: | 1,900,000 | FDIC Certificate Number: (For Depository Institutions) | 35455 |
| CPP/CDCI Funds Repaid to Date: | | Credit Union Charter Number: (For Credit Unions) | N/A |
| Date Funded (first funding): | February 13, 2009 | City: | Corbin |
| Date Repaid ¹ : | N/A | State: | Kentucky |

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Loans reduced by \$1.158M in 2011 and \$15.04M since CPP funding. The CPP funds allowed the bank to be active in seeking loan growth during the economic downturn and times of slow loan demand.

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☐ To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

☒ **Increase securities purchased (ABS, MBS, etc.).**

Securities purchased have increased by \$5.993M from the CPP Funding date until December 31, 2011 including \$1.165M in FY2011.

☐ **Make other investments.**

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X Increase reserves for non-performing assets.

The bank's ALLL has grown by \$275K since the CPP Funding date.

X Reduce borrowings.

Federal Home Loan Bank advances have been reduced by \$3.0M since the CPP Funding date.

X Increase charge-offs.

The bank has suffered charge-offs totaling \$1.582M since the CPP Funding date including \$259K in 2011.

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☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Of the \$1.9M in CPP Funding, \$750,000 was injected into the bank by the holding company as capital. The bank's capital ratio has risen from 7.94% to 9.45% as of December 31, 2011.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Hometown Bank was able to maintain capital ratios greater than 8.0%. Capital ratios increased from a low of 7.94% at 2/28/09 to 9.45% at December 31, 2011. Without the CPP funding, Hometown Bank would have been forced to reduce lending opportunities and curtail deposit gathering at all locations. A reduction in FTEs was also highly likely. Furthermore, the holding company was not forced into an additional capital stock sale in a down market.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Due to the CPP funding, the holding company was not forced into an additional capital stock sale in a down market and the bank did not have to take steps to reduce loans and deposit growth efforts.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

The CPP Funds allowed Hometown Bank to continue to seek loan and deposit growth at our new Barbourville location which opened in September 2008. Employee levels have also increased since the CPP Funding in February 2009.